

## Message Text

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DRAFTED BY: FRS: NORMAND BERNARD

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FM SECSTATE WASHDC

TO AMEMBASSY PARIS PRIORITY

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FOR THE HONORABLE ARTHUR F. BURNS, CHAIRMAN, FEDERAL  
RESERVE BOARD C/O DONALD MCGREW

SEASONALLY ADJUSTED PRIVATE HOUSING STARTS DECLINED SLIGHTLY  
IN FEBRUARY TO AN ANNUAL RATE OF 2.44 MILLION UNITS FROM AN  
UPWARD REVISED RATE OF 2.50 MILLION IN JANUARY. BUILDING  
PERMITS DECLINED FURTHER IN FEBRUARY BUT CONTINUED AT A  
HIGH LEVEL.

IN DOMESTIC FINANCIAL MARKETS. TREASURY BILL RATES CONTINUED  
TO MOVE HIGHER WITH THE 3- MONTH BILL RISING 10 BASIC POINTS  
TO 6.21 PER CENT. THE BOND MARKETS WERE ALSO WEAKER AND  
PRICE DECLINES RANGED UP TO 1/2 POINT. MARKETS APPEARED  
TO BE INFLUENCED BY SPECULATION THAT THE UNITED STATES WOULD  
TAKE ACTIONS TO INDUCE FLOWS OF FUNDS FROM EUROPE BY RAISING  
DOMESTIC INTEREST RATES. SHORT- TERM RATES ALSO APPEARED TO  
BE AFFECTED BY TAUGHTNESS IN THE FEDERAL FUNDS MARKET AND BY  
THE WEEKLY FEDERAL RESERVE BANKING STATISTICS, NOTABLY THE  
RISE IN M-1 FOR WEEK ENDING MARCH 7.

BONDS, AND TO A LESSER EXTENT BILLS, IMPROVED SOMEWHAT  
FOLLOWING NEWSPAPER REPORTS OF YOUR COMMENTS REGARDING THE  
DISCOUNT RATE. FEDERAL FUNDS TRADED IN A 7 TO 7-3/8 PER CENT  
RANGE; AN EFFECTIVE RATE OF 7-1/4 PER CENT IS ANTICIPATED.  
THE SYSTEM PROVIDED SOME \$300 MILLION OF RESERVES DURING THE  
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DAY. STOCK PRICES CONTINUED TO DECLINE IN MODERATE TRADING.  
DOW JONES INDUSTRIALS FELL NEARLY 7 POINTS TO A LEVEL OF 963.

THE DOLLAR FIRMED IN CONTINUED LIGHT TRADING, PARTICULARLY  
AFTER VARIOUS ANNOUNCEMENTS FROM THE PARIS MEETING OF FINANCE  
MINISTERS STARTED COMING OVER THE NEWSWIRES. AS OF MID-  
AFTERNOON IN NEW YORK, THE MARK WAS 14.1 PERCENT OVER ITS  
SMITHSONIAN PARITY, THE SWISS FRANC 18.7 PER CENT, AND THE  
YEN 18.9 PER CENT. IT WAS ANNOUNCED TODAY THAT SWEDEN AND  
NORWAY WOULD JOIN THE EC FLOAT AGAINST THE DOLLAR WHEN EXCHANGE  
MARKETS OFFICIALLY RE- OPEN ON MONDAY.

EURO- DOLLAR INTEREST RATES ROSE MODERATELY IN MOST MATURITIES.  
GOLD WAS UNCHANGED AT \$82.75 IN LONDON.

DOW JONES WIRE REPORTS TODAY INCLUDED THE FOLLOWING ITEMS:  
SECRETARY SHULTZ TO VISIT LONDON AND BRUSSELS FOR FURTHER  
TRADE AND MONETARY DISCUSSIONS.

APART FROM YOUR STATEMENTS ON DISCOUNT RATE, YOUR COMMENTS  
ABOUT FEDERAL RESERVE EXAMINERS INSPECTING THE BOOKS OF US  
BANKS IN EUROPE TO LEARN ABOUT RECENT FLOWS WERE ALSO REPORTED.  
THE SYSTEM STUDY WAS DESCRIBED AS UNPRECEDENTED.

VOLCKER WAS QUOTED AS SAYING THAT AS ONE MEANS OF ATTRACTING  
DOLLARS HOME THE FED HAS OUT FOR COMMENT A PROPOSAL TO REDUCE  
THE 20 PERCENT EURODOLLAR RESERVE REQUIREMENT.

IN OTHER NEWS THE WHITE HOUSE ANNOUNCED THE RESIGNATION OF IRS  
COMMISSIONER JOHNNIE WALTERS. A SUCCESSOR WASN' T IMMEDIATELY  
NAMED.

ROGERS

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\*\*\* Current Handling Restrictions \*\*\* n/a

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